SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Ortiz | Analyst: Jeani Brent | Bill Number: SB 1272

Related Bills: See Prior Analysis | Telephone: 845-3410 | Amended Date: 05/28/1999

Attorney: Patrick Kusiak | Sponsor:

SUBJECT: Northgate Enterprise Zone/Expand to Include 250 Acres of McClellan Air Force Base

_____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _________.

_____ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

_____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _________.

__X__ FURTHER AMENDMENTS NECESSARY.

_____ DEPARTMENT POSITION CHANGED TO ________________________.

__X__ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 26, 1999 , STILL APPLIES.

__X__ OTHER - See comments below.

SUMMARY OF BILL

Under the Government Code, this bill would require the Trade and Commerce Agency (TCA) to designate a portion of McClellan Air Force Base as an extension of the Northgate Enterprise Zone. The designation would be binding for 10 years. All tax incentives available to businesses operating in enterprise zones would be available to businesses operating in the expanded portion of the Northgate Enterprise Zone.

SUMMARY OF AMENDMENT

The May 28, 1999, amendments decreased the designation period of the expansion area from 15 to 10 years and added a requirement that, to qualify for the enterprise zone hiring credit, at least 50% of the taxpayer's workforce must be composed of residents of Sacramento County and at least 30% of these county residents (thus, at least 15% of the total workforce) must be qualified disadvantaged individuals. The bill would define "qualified disadvantaged individual" as one who is eligible for either the federal Job Training Partnership Act, the CalWORKs program, or the federal Targeted Jobs Tax Credit Program.

Except for the policy and implementation considerations mentioned below, the department's analysis of the bill as introduced February 26, 1999, still applies. The previously identified technical concern is included below.

POLICY CONSIDERATION

This bill purports to extend an existing enterprise zone, but would create numerous differences between the existing zone and the expansion area. For instance, the designation period stated in the bill for the expansion area is different than that in existing law for the existing zone.

Board Position:			Department/Legislative Director	Date
_____ S	_____ NA	_____ NP		
_____ SA	_____ O	_____ NAR		
_____ N	_____ OUA	__X__ PENDING	**Johnnie Lou Rosas**	**6/17/1999**

Also, the criteria for claiming one of the incentives (the hiring credit) would be significantly different for the expansion area than for the existing zone. A method for providing enterprise zone incentives that would create less confusion for businesses within the existing zone and the expansion area and for those agencies charged with administering the program would be to create a new zone instead of extending the existing zone.

IMPLEMENTATION CONSIDERATIONS

The workforce criteria provided in the bill would raise the following concerns. The department is available to work with the author's staff to resolve these concerns.

1. If the author's intent is for the department to administer this provision, the criteria should be contained in the Revenue and Taxation Code.
2. The provision leaves unclear:
   A. Whether the 50% residency and 30% workforce tests are to be determined based on employees newly hired after the expansion area is designated or based on the taxpayer's total existing workforce, both inside and outside the designated area, at some unspecified point in time.
   B. Whether the 50% residency and 30% workforce criteria must be met at year end only, on a monthly basis, or on a continual basis.
   C. Whether the 30% workforce criteria applied against "this percentage" is calculated against the 50% minimum residency percentage or the actual percentage of county workers in the event that percentage is greater than 50%.
3. No requirement is provided for recapture of the tax incentives if a business fails to maintain the 50% residency and 30% workforce criteria.
4. The federal Targeted Jobs Tax Credit program expired in 1994 and was replaced by the federal Work Opportunity Credit in 1997. Using the long-expired Targeted Jobs Tax Credit program as a criterion for determining eligibility for the credit, instead of the existing Work Opportunity program, would cause difficulty for taxpayers and the department in determining whether a particular individual is a qualified disadvantaged individual.

TECHNICAL CONCERN

The provision in this bill that states the additional area shall be deemed designated pursuant to Government Code Section 7073 is unnecessary to allow the tax incentives. Under the Revenue and Taxation Code, any designation made under Government Code Chapter 12.8 would qualify for the tax incentives.

BOARD POSITION

Pending.